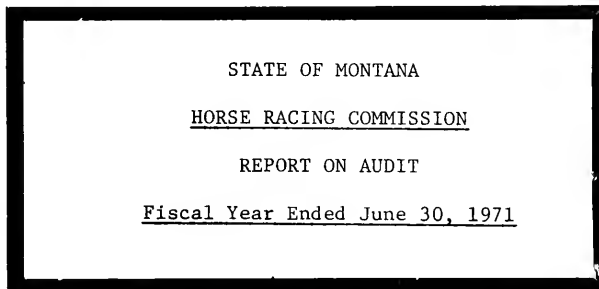


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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA
HORSE RACING COMMISSION
REPORT ON AUDIT
Fiscal Year Ended June 30, 1971

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA HORSE RACING COMMISSION

Commission Members

Mr. N. R. Kalbfleisch, Chairman	Shelby	1972
Mr. Bill A. Fisher	Billings	1973
Mr. John Roberts	Missoula	1974

Administrative Officials

Mr. Charles Nuber, State Steward	Great Falls
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SUMMARY OF RECOMMENDATIONS

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Discontinue the issuance of receipts and design one form for use as a receipt and license.	18

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Require racing meet sponsors to station a law officer inside the pari-mutuel room and limit access to authorized personnel.	21
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STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Montana Horse Racing Commission as of June 30, 1971, and the related statements of operations, as set forth in the table of contents in this report, for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements have been prepared on a cash basis of accounting from the records of the state controller and the detailed records maintained by the commission. The financial statements do not show financial position as would statements prepared on the modified accrual basis in accordance with generally accepted accounting principles applicable to governmental units.

The commission does not maintain a control account or a subsidiary ledger for its equipment. We identified and accounted for commission equipment items costing \$593 but did not examine prior year records for purchases made more than two years ago.

In our opinion, subject to the exceptions noted in the preceding paragraphs, the accompanying financial statements fairly present the

financial position of the Montana Horse Racing Commission as of June 30, 1971, and the results of operations for the year then ended, in conformity with generally accepted governmental accounting principles applied on a basis consistent with the preceding year.

We submit the financial statements listed in the preceding table of contents with the following comments.

COMMENTS

GENERAL

The Montana Horse Racing Commission was created by the legislature as an independent agency in 1965 under Title 62, Chapter 5, of the Revised Codes of Montana. The Executive Reorganization Act of 1971 continued the commission under the Department of Professional and Occupational Licensing, which is yet to be created. The act provides that the new department is to be established by executive order of the Governor by December 31, 1972.

The main responsibility of the commission is to prepare and promulgate a complete set of rules and regulations to govern race meets and the pari-mutuel system in Montana. In carrying out this responsibility, duties of the commission include auditing and supervising the pari-mutuel system of wagering at race tracks, licensing of all personnel who have any function with the operation of racing meets, establishing of dates for race meets, supervising these racing meets, and establishing veterinary standards and practices as they apply to horse racing.

The commission is composed of three members appointed by the Governor for three-year terms. The commission employs a state steward, assistant state steward, and pari-mutuel supervisor to assist the commission in performing its duties and responsibilities during the racing season. The racing season generally lasts from May through September. Administrative and accounting duties are performed by a private secretarial service located in Helena which was hired in December, 1970. Prior to that time the duties were performed by a secretary located in Shelby, Montana. The personnel hired by the commission are compensated on either a flat fee or hourly basis. The commission members receive no compensation but are

reimbursed for expenses incurred in the performance of their duties. This is one of the few such commissions in Montana state government for which the members do not receive some form of compensation for meetings.

The activities of the commission are financed through appropriations from the commission's account in the Earmarked Revenue Fund. Revenue received by the commission and deposited in the Earmarked Revenue Fund consists primarily of license fees, fines, and a one percent allocation of the total wagering receipts received at each racing meet. Exhibit C reflects the amount of revenue received and deposited from these sources during the 1970-71 fiscal year.

As shown in Exhibit D, the commission was appropriated \$24,900 for fiscal year 1970-71, of which \$21,782 was expended. Approximately 70 percent of these expenditures was for contracted personal services and 17 percent was for travel, with the remainder attributed to miscellaneous operating expenses such as supplies, communications, etc.

ACCOUNTING SYSTEM

At present the commission maintains a general ledger but does not utilize the double entry system of accounting and does not maintain cash receipts, cash disbursement, or general journals, all of which are basic records of an accounting system. The present system basically provides for account of the commission's operation in the same manner as the records of the State Department of Administration, with some additional detailed information.

The Department of Administration is currently in the process of implementing a uniform statewide accounting system. This system should provide the basis to adequately account for the commission's activities

on a fiscal year basis, as well as provide the necessary management information on a racing season basis.

RECOMMENDATION

We recommend that the commission consult with the State Department of Administration to insure that the needs and requirements of the commission are adequately provided for in the statewide accounting system.

FINANCIAL REPORTING

Section 82-4002, R.C.M. 1947, requires each state agency to submit a written report to the governor containing information prescribed by the governor describing the activities of the state agency during any given fiscal year ending on June 30. In contrast, the activities of the commission are best described on a racing season basis, which includes a portion of two fiscal years since the season begins in May and ends in September.

However, it is also important for the state to be aware of the financial status of the commission on a fiscal year basis. For example, it is necessary that expenditures and appropriations be compared on a fiscal year basis to assure that the commission did not exceed the appropriation granted by the legislature. In addition, expenditures and revenue data for all state agencies are combined to show the total financial operations of the state on a fiscal year basis. In this respect, the reports that have been prepared by the commission include revenue and expenditure data compiled on different bases. For example, expenditure data has been compiled on an actual cost basis whereas revenue data is compiled, to a certain extent, on an accrual basis, primarily because

revenue from races in May through July is often not received until after the end of the fiscal year.

Other financial data and information would be more meaningful if submitted on a racing season basis. For example, the increase or decrease by various race meets in the total gross wagering receipts and the one percent fee remitted to the state would, if reported on a racing season basis, reflect a more accurate and meaningful overview of the commission's activities. Other reported items such as the number and type of licenses issued, the number of positive drug tests, the number of Montana-bred winners, etc., would also better describe the activities and accomplishments of the commission if reported on a racing season basis as opposed to a fiscal year basis.

We believe that the annual report prepared by the commission could incorporate both fiscal year and racing season data combined in a report prepared at the end of each fiscal year. Financial and budgetary information is presently available on a fiscal year basis through the state's accounting system. This information could be included as of June 30 of each year as one section of a two-part report. The other section could include pertinent information and data describing the activities and accomplishments of the commission during the preceding racing season which, of course, would span the two preceding fiscal years.

Whatever report format is used, it should be flexible enough to allow the commission to acquire data in the manner most meaningful to them and, at the same time, provide sufficient fiscal information on a basis compatible with other state agencies. To accomplish this, we believe the commission should consult with the State Department of Administration to devise a report format and system suitable to all needs.

RECOMMENDATION

We recommend that the commission consult with the Department of Administration to devise an annual report format which fulfills the requirements for both fiscal and operational data.

CONTROL OVER CASH

Safeguarding Cash Collections

During racing meets the state steward issues annual licenses to participants, officials, and employees and collects the appropriate fees. The moneys are later mailed to the secretarial service for deposit to the state treasury. Between the time the fees are collected and deposited the money is retained by the state steward in a cloth money bag.

The following schedule reflects examples of fees collected and the delay in depositing, during which time the money was in the custody of the state steward.

<u>Amount</u>	<u>Date of First Receipt</u>	<u>Date of Deposit</u>	<u>Number of Days' Delay</u>
\$1,000	5/6/71	5/20/71	14
330	5/22/71	5/28/71	6
230	5/30/71	6/9/71	10
225	6/13/71	6/15/71	2
825	6/14/71	6/21/71	7
440	6/18/71	6/28/71	10

The state steward has many other responsibilities which require him to be present at various locations during the course of a racing meet, during which time the money could be lost or stolen. In addition, the state steward keeps the money in his motel or hotel room overnight or carries it on his person.

While we recognize that all the fees were not collected at once, a significant portion of the fees are collected prior to or during the first day of a racing meet, resulting in a significant amount of cash on hand during the rest of the meet, which spans 2, 3, or 4 days.

This problem could be overcome by requiring the state steward to deposit the money daily to the account of the state treasurer at banks located in the towns where the racing meets are conducted. In addition, the bank night depository facilities could also be used. The receipt forms and deposit tickets could then be mailed to the secretarial service to be audited and recorded. A procedure such as this would conform to present statutes, which require the daily depositing of receipts, and would result in more adequate safeguards over money collected.

RECOMMENDATION

We recommend that the commission consult with the state treasurer to ascertain the procedures necessary to deposit commission receipts directly on a daily basis in outlying banks.

Dishonored Checks

Occasionally checks are received by the commission and deposited with the State Treasurer's Office, but payment by the banks is refused. Dishonored checks returned to the commission are not formally recorded in the accounting records. Under present procedures, a copy of the check is sent to the state steward for collection and the dishonored check is retained in a file by the bookkeeper. Immediately upon receipt of dishonored checks, an account receivable should be established for control purposes and collection efforts initiated.

RECOMMENDATION

We recommend that the commission formally control and account for all dishonored checks returned by the State Treasurer's Office.

Restrictive Endorsements on Checks Received

Good business practice dictates that a restrictive endorsement be promptly placed on all checks received to insure against negotiation by unauthorized persons.

In the case of the fees collected by the state steward, the restrictive endorsements are not placed on the checks until they are prepared for deposit by the secretarial service. Restrictive endorsement of checks could be accomplished through the use of a rubber stamp which could be applied to checks by the steward when they are received. In this regard, the Department of Administration is preparing guidelines for all state agencies with respect to restrictive endorsements. Pending the release of these guidelines, we believe the commission should place a restrictive endorsement on all checks immediately upon their receipt.

RECOMMENDATION

We recommend that the commission require restrictive endorsement of all checks immediately upon receipt.

CONTROL OF EXPENDITURES

Officials or employees of the commission directly receive goods or services which are later billed by the vendor or person providing those services. We noted numerous occasions where the vendors' invoices were not signed by an official or employee of the commission as evidence that

the supplies or services were received. For example, secretaries and typists are hired to perform services during the racing meets and, in most cases, the responsible commission official or employee did not sign the invoice or bill as authorization or confirmation of the hours worked or rate of pay.

The state claim forms were approved by the chairman of the commission, although the chairman himself was not in all cases the official or employee who actually received the goods or services. The employee's signature on the vendor's invoice would provide the chairman with assurance that the product or service was purchased by an authorized official and would signify that the goods or services were received.

RECOMMENDATION

We recommend that the commission require all officials and employees procuring goods or services, to sign for the goods or services received as evidence of authorization and receipt.

TRAVEL

Per Diem or Actual Expense Basis

Section 59-538, R.C.M. 1947, specifies that persons engaged in the service of every department of the state, except as specifically excluded by law, shall be allowed per diem of \$13.50 per day while traveling within the state and \$22.50 per day out of state. During the major portion of fiscal year 1970-71, commission travel expenses were paid on a per diem basis in conformance with the referenced statute. Late in the fiscal year, the commission changed its method of reimbursing travel expenses and presently pays travel expenses of commission members on an actual basis as opposed to a flat per diem rate.

We were informed that the commission changed methods of reimbursement because the per diem allowable by statute did not adequately compensate them for expenses incurred on behalf of the commission and because they thought that the statutes governing the commission (specifically, Section 62-503, R.C.M. 1947) allowed the commission to pay actual travel expenses. Section 62-503 provides that the commission may " . . . incur all such costs, charges and expenses as are reasonably necessary in carrying out the intent and purposes" of the horse racing laws. Since no specific mention is made of travel expenses in the foregoing statute, we sought clarification from the Office of the Attorney General. We were advised that in the absence of such specific mention, it is generally construed that the requirements of general statutes dealing with the topic prevail. In this case, the general statute pertaining to travel expenses and applying to all agencies in the absence of specific exceptions is Section 59-538, R.C.M. 1947. Consequently, the commission should pay travel expenses in accordance with the limits set out in that section, i.e., \$13.50 per day while in state and \$22.50 while out of state.

Although the commission is presently limited to per diem, as discussed in the preceding paragraphs, we believe the commission should consider seeking legislation to allow members compensation while engaged in official duties. As it now stands, commission members are not compensated in any manner for services rendered the state, even though they lose time from their regular full-time occupations. This situation, in our opinion, indirectly limits commission membership to only those people who can afford such sacrifice of their time and resources.

In the case of most other state boards and commission, members are paid a statutory amount such as \$20 or \$25 for each day engaged in the

performance of official duties, in addition to travel expenses on either an actual or per diem basis. We believe a similar statutory allowance should be considered for the commission.

RECOMMENDATION

We recommend that the commission:

- 1. Pay travel expenses in accordance with the provisions of Section 59-538, R.C.M. 1947.*
- 2. Consider seeking legislation at the next opportunity to allow commission members to receive compensation, in addition to travel expenses, while engaged in official duties.*

Mileage Claimed

Representatives of the commission are reimbursed 9¢ a mile for mileage traveled on official business. In reviewing travel claims, we noted a number of instances where travelers claimed what appears to be excessive mileage when compared to the "Official 1971 Highway Map." For example, one employee traveled from Missoula to Great Falls and claimed a 428-mile round trip. Per the highway map, the official round trip mileage is 330.

While we realize that actual mileage may be more or less than the official mileage because of the specific points of departure and destination or because of vicinity travel, we believe that when these differences become significant as in the foregoing example, the reasons for the variance should be explained on the travel claim.

RECOMMENDATION

We recommend that the commission utilize the official highway map as a guideline for mileage claimed and require written explanations for significant variations.

PERSONAL SERVICES

As previously mentioned, about 70 percent of the commission's total expenditures was for contracted personal services. Of this amount (\$15,242), about \$11,300 was paid to four individuals performing services for the commission. The state steward, assistant state steward, and the pari-mutuel supervisor performed services during the racing season. The secretarial service works during the entire year. Our inquiry into the manner in which these people and others are engaged by the commission disclosed two areas which warrant some change. First of all, some of the people engaged by the commission on a contract basis should probably be engaged as employees rather than independent contractors. Secondly, no written contracts or agreements exist between the commission and those people engaged by the commission as independent contractors.

In the first instance, the state steward, assistant state steward, and pari-mutuel supervisor all perform duties which are of an "employee" character. That is, they perform their day-to-day duties under the direct supervision and control of the commission in contrast to an independent contractor, who normally operates under the terms of an agreement which is formulated before the work progresses.

In these instances where the people engaged by the commission function as employees, we believe they should be paid in the same manner as state employees, i.e., through the state central payroll system and subject to withholdings for taxes, social security, etc.

In those instances where the people engaged by the commission are, in fact, independent contractors, there should be a formal written agreement depicting not only the amount to be paid, but also the services to be provided. No such agreements existed at the time of our audit. For example, the secretarial service started performing duties in December, 1970, at the rate of \$4.50 per hour. There was no documented approval by the commission or any written agreement between the secretarial service and the commission. Similarly, in January, 1971, the commission accepted the offer of a former commissioner to redraft all the rules and regulations "without charge" and, at the same time, approved a payment of \$595 to another party for rewriting the pari-mutuel procedures. In this regard, there was no written contract between this party and the commission, nor was there formal commission approval of the rewriting. In addition, the former board member who initially was going to redraft the rules and regulations "without charge" was subsequently paid \$1,000 for his efforts. Again, there was no written contract or approval by the commission to account for the change from the original offer, i.e., to perform the service without charge. We do not question the compensation paid for redrafting the rules and regulations, but rather believe that the transaction points out a possible misunderstanding between the parties.

We believe that formal written contracts should be entered into in cases such as those described above, and in other instances where the commission engages persons other than employees to perform services. This is especially important since the majority of the commission's expenditures are for contract services. Without written contracts the duties and responsibilities of both parties are not clear, and unnecessary overlap or gaps in administrative responsibility may appear. For example,

does the secretarial service have a pre-audit responsibility as part of the claim processing procedures and can it act as an agent of the commission and, in doing so, incur debts that the commission is responsible for paying?

These questions and problems should not be left to verbal expediency at the time each situation arises. Undoubtedly, verbal communications will be necessary to clarify points, but a basic written agreement will provide a sound starting point.

RECOMMENDATION

We recommend that the commission:

- 1. Identify those personnel who are employees and arrange for them to be paid through the central payroll system.*
- 2. Adopt and approve written contracts or agreements between the commission and all individuals other than employees engaged to perform services for the commission.*

FIXED ASSETS

The commission has not adequately identified and accounted for the fixed assets under its control. Control and subsidiary records have not been maintained and the equipment has not been tagged identifying it as state property.

We identified two file cabinets, a typewriter, and an electronic device which were purchased by the commission over the last two years. We were also advised that the commission owned another file cabinet and a camera. This equipment was not recorded in the accounting system or separately identified. This is especially important since the file cabinets are commingled with the assets owned by the secretarial service which currently performs the bookkeeping function for the commission.

The Department of Administration, in Management Memo No. 70-17, has issued preliminary instructions relating to property control procedures to be implemented by all state agencies. These procedures include the requirement for an annual inventory and the recording of fixed asset transactions.

RECOMMENDATION

We recommend that the commission separately identify the equipment under its control and implement the property control procedures prescribed by the Department of Administration in Management Memo No. 70-17.

ISSUANCE OF LICENSES

As previously mentioned, the state steward is responsible for issuing licenses to all individuals connected with the racing meets. The licenses, issued on an annual basis, are generally obtained by the individuals either immediately preceding or on the first day of the first racing meet in which they participate. We have three suggestions, which should result in increased efficiency and expedite the present procedures.

1. Generally, a day or two before or on the first day of the racing meet, the jockeys, owners, trainers, etc., prepare applications for their particular licenses. Upon receiving these applications, the state steward collects the fees and issues the licenses.

It was our observation that the issuance of licenses at the racing meet created much confusion and, in our opinion, detracted from other duties and responsibilities of the state steward. We believe that this procedure could be improved by requiring license applicants, especially

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the jockeys, owners, and trainers, to submit applications for licenses prior to the start of the racing season. This would not appear to create an unreasonable demand because these individuals undoubtedly know before the season starts whether or not they intend to participate in racing meets. This would not only reduce the paper work preceding racing meets but also allow the commission time to adequately evaluate the applications and verify any unusual or questionable items before licenses are issued, a procedure which cannot be adequately accomplished under present conditions. Exceptions would occur and licenses would have to be issued at the racing meets, but late filing penalties could be assessed in these instances as an incentive to obtain the license in advance.

2. The commission also issues licenses to all personnel hired by the association sponsoring the racing meet. The fee for these licenses is generally \$2.00 for each person. Under present procedures each individual prepares the application, pays the fee, and receives a license on the first day of the racing meets. We believe that it would be more efficient to require that the sponsoring organization prepare and submit in advance of meets a control list of all personnel to be used during the racing meet, along with applications and a check covering the total of all the fees associated with those personnel. This would eliminate the necessity of the state steward collecting \$2.00 fees from each individual and issuing individual licenses during the racing meet.

As in the preceding instance, a procedure such as this would also allow applications to be evaluated and licenses prepared in advance. The control list could then be used to distribute the licenses at the meet and to assure that all personnel have been licensed.

3. A third consideration that would increase the efficiency of the licensing function would be to design a form that could be used as both

a receipt document and license. Presently, the state steward collects the fees and issues a receipt to the individual. The licenses are later typed by a secretary and distributed later during the racing meet. This results in the processing of two forms, the receipt and the license, and increases administrative costs as a result of additional handling, accounting, and filing.

In view of the foregoing suggestions that licenses be issued in advance, the necessity to issue receipts should be significantly reduced or eliminated. Consequently, one form could be used as both the license and receipt.

RECOMMENDATION

We recommend that the commission:

- 1. Implement procedures to require the filing of applications and issuance of annual licenses prior to the start of the racing season.*
- 2. Require the sponsoring organizations to submit a control list of all personnel hired, together with their applications and a check for the total license fees, prior to each racing meet.*
- 3. Discontinue the issuance of receipts and design one form to be used as both a receipt and license.*

UNCLAIMED TICKETS

Title 67, Chapter 22, R.C.M. 1947, sets forth the laws relating to the disposition of unclaimed property. Basically, the statutes provide that property unclaimed after seven years is determined to be abandoned. This property is to be reported and turned over to the State Department

of Revenue, and the moneys received are deposited in the public school account of the Trust and Legacy Fund.

During the course of the racing meets, some winning tickets are not cashed and these are termed unclaimed tickets. For example, the cash value of the unclaimed tickets at the June 1971 racing meet in Great Falls was \$870 and at the last racing meet in Helena the total of the unclaimed tickets was \$1,363. Presently, the money from unclaimed tickets is retained by the sponsoring organization, which is ordinarily a racing association.

The practice of retaining the proceeds from unclaimed tickets may be in conflict with the above referenced statute. It may be that the money retained by the sponsoring organization as a result of unclaimed tickets should be held and turned over to the State Department of Revenue as unclaimed property.

RECOMMENDATION

We recommend that the commission obtain an opinion from the Attorney General to determine whether Title 67, Chapter 22, R.C.M. 1947, applies to unclaimed tickets and if it does, implement the necessary procedures to comply with the statute requirements.

SECURITY PROVIDED AT RACING MEETS

Our observations at various racing meets disclosed that overall security procedures could be improved. Significant sums of money are on hand throughout the racing meets and we believe that the commission should require more stringent security requirements in and around the location of wagering and payoffs.

The ticket sellers, cashiers, etc., are generally secluded from the public in the pari-mutuel room. At the Helena meet, access to the pari-mutuel room was not adequately controlled. The two doors entering the area were not locked at all times and admittance was not controlled. However, there was, on occasion, an armed law officer on duty inside the room. At the Shelby meet, access to the pari-mutuel room was usually controlled by a racing official; however, the door leading to the area was often unlocked and admittance was not adequately controlled. In addition, a law officer was not stationed inside the pari-mutuel room.

At all meets we attended, law officers were on duty at the track. Since large amounts of cash are centralized in the pari-mutuel area, we believe that at least one armed officer should be stationed inside the pari-mutuel room. The officer could not only limit admittance to authorized personnel, but his very presence would, in our opinion, serve as a deterrent to robbery or theft.

In addition to the foregoing weaknesses in physical security, we found that personnel who handle money during the course of a race meet, such as ticket sellers, cashiers, and money counters, are not always covered by a fidelity or faithful performance bond. Since the commission is concerned with the protection of the public interest in racing, measures should be taken to insure that the money wagered by the public is adequately protected. This could be accomplished not only by adequate physical security, but also by requiring racing organizations to acquire faithful performance bonds covering the personnel in their employ who handle money during races.

RECOMMENDATION

We recommend that the commission:

- 1. Require the racing meet sponsors to station a law officer inside the pari-mutuel room and limit access to authorized personnel.*
- 2. Establish a policy requiring that organizations sponsoring race meets obtain faithful performance bonds to cover their employees who handle money.*

PARI-MUTUEL EQUIPMENT STANDARDS

During the 1971 racing season the race tracks supervised by the commission utilized the services of one of two totalizer equipment companies. These companies contract with organizations that sponsor race meets for equipment (called totalizer equipment) to use at the race tracks. This equipment consists of mechanical and electronic devices which are used to issue wagering tickets, tabulate the wagering by win, place, and show, and post the race results on a public display board (called a tote board). Whether a racing organization uses one company or the other depends upon whether the race track has its own tote board, i.e., one company provides a portable tote board with its equipment while the other company does not. Consequently, race tracks not owning a tote board must use the company which provides one.

The commission has not promulgated any basic standards as to the type and quality of equipment to be used in pari-mutuel operations. In this regard, we observed significant differences in the quality, reliability, and type of equipment used by the two companies operating in Montana. The equipment used by one company appeared to be modern and well maintained and operated in a smooth and trouble-free manner.

In the case of the other company, however, almost the exact opposite situation existed. The equipment used by the company appeared to be nearly obsolete in contrast to other equipment. The operating condition of the equipment seemed to bear out this obsolescence in that breakdowns and malfunctions were commonplace. We observed numerous instances where unreadable or damaged tickets were issued by the equipment and where, because of dust or electrical malfunctions, the parts of the equipment ceased to operate. In summary, the equipment did not operate in a smooth and trouble-free manner and, as a consequence, tabulation errors were common as were time delays in the posting of race results.

Although we do not believe it is within the commission's purview to dictate which totalizer companies will be used by the racing organizations, it is certainly within the commission's purview and probably statutory responsibility, to encourage the improvement of racing and insure that the public interest in racing is protected. In this regard, we believe the establishment of minimum standards for totalizer and pari-mutuel equipment would be beneficial in that such standards would serve to insure the accuracy and reliability of wagering data.

RECOMMENDATION

We recommend that the commission establish written standards for totalizer and pari-mutuel operations at race tracks in Montana.

PARI-MUTUEL RESPONSIBILITIES

Section 62-505, R.C.M. 1947, specifies that the commission is to establish rules and regulations governing, among other things, the auditing and supervision of the pari-mutuel systems of wagering. Pursuant

to this requirement, the commission has established rules and regulations which require racing organizations to employ an "independent public accountant." The independent public accountant is to furnish a general audit of gross wagering receipts, payoffs, and the intrinsic calculations.

In addition to the foregoing, the commission engages a pari-mutuel supervisor as a representative of the commission to oversee the pari-mutuel operations during race meets. As previously mentioned, no written agreement exists as to the duties and responsibilities of various personnel engaged by the commission, including the pari-mutuel supervisor. As a result, our evaluation of his duties is based upon our observations at race meets and discussions with commission officials, including the pari-mutuel supervisor himself.

We visited three separate race meets in three cities around the state, namely, Great Falls, Helena, and Shelby. At each of these meets we noticed major differences in the duties of the pari-mutuel supervisor.

At one meet, for example, the pari-mutuel supervisor was, in effect, calculating the amount of payoffs which were made to the public, a task which is usually done by the totalizer company in conjunction with pari-mutuel personnel employed by the racing organization. In this case, however, the state pari-mutuel supervisor was using an electronic machine which enabled him to complete his computations before the other pari-mutuel personnel who were making the calculations manually. Consequently, the electronically produced data became the basis for the payoffs when, in fact, it was intended to be a verification of the payoffs.

At another meet, the state pari-mutuel supervisor was again using an electronic machine to verify every payoff calculation made by the totalizer company and pari-mutuel personnel who, in this instance, were

also using an electronic machine. The extent of the state pari-mutuel supervisor's actions in this instance appeared to be unnecessarily redundant.

In contrast to the foregoing meets, the third meet which we visited had no state pari-mutuel supervisor. In this instance the pari-mutuel operations were audited and supervised by an individual engaged by the racing organization. Since each of the three meets which we visited disclosed pari-mutuel supervisor duties ranging from none to full control of the pari-mutuel operations, we believe a question exists as to the commission's responsibilities in this area.

As previously mentioned, the commission's rules and regulations presently require the present of an independent public accountant. In view of this we believe the commission should confine its concern in the area of pari-mutuel operations to:

1. Assuring that a proper and qualified independent accountant is engaged by the racing organizations.
2. Assuring that the accountant engaged by the racing organizations is properly briefed and made aware of the commission's statutory and regulatory concerns as well as reporting requirements.
3. Spot checking, observing, and testing pari-mutuel operations as they are carried out during the race meets.

RECOMMENDATION

We recommend that the commission amend its procedures in the area of auditing and supervising pari-mutuel operations to:

1. *Assure that a qualified independent accountant is retained by the racing organizations.*

2. *Assure that the accountant is properly briefed and made aware of the statutory, regulatory, and reporting requirements of the commission.*
3. *Spot check, observe, and test pari-mutuel operations as they are carried out.*

FINAL COMMENTS

The comments and recommendations contained in this report have been discussed with the chairman of the commission. We wish to thank the chairman, the other commission members, and the personnel engaged by the commission for their cooperation and assistance during the course of our audit.

Respectfully submitted,



Morris L. Brusett
Legislative Auditor

December 6, 1971

HORSE RACING COMMISSION
EARMARKED REVENUE FUND
BALANCE SHEET
June 30, 1971

ASSETS

Cash in State Treasury	<u>\$9,761</u>
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RESERVES AND FUND BALANCE

Reserve for Encumbrances	\$ 87
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Fund Balance - Exhibit B	<u>9,674</u>
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Total Reserves and Fund Balance	<u>\$9,761</u>
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HORSE RACING COMMISSION
EARMARKED REVENUE FUND
STATEMENT OF CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 1971

Fund Balance, July 1, 1970	\$ 4,252
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Additions:

Revenue - Exhibit C	<u>27,291</u>
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Total	31,543
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Deductions:

Expenditures - Exhibit D	\$21,782
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Reserve for Encumbrances	<u>87</u>	<u>21,869</u>
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Fund Balance, June 30, 1971	<u><u>\$ 9,674</u></u>
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HORSE RACING COMMISSION
EARMARKED REVENUE FUND
STATEMENT OF REVENUE
Fiscal Year Ended June 30, 1971

Pari-Mutuel Fees (1% of Gross Amounts Wagered)	\$17,832
License Fees, Fines, and Underpayments	<u>9,459</u>
Total Revenue	<u><u>\$27,291</u></u>

HORSE RACING COMMISSION
 earmarked REVENUE FUND
STATEMENT OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH APPROPRIATIONS
Fiscal Year Ended June 30, 1971

1970-71 Appropriation for Operation and Capital	\$24,900
Expenditures	21,782
Encumbrances	<u>87</u>
Reverted Balance	<u>\$ 3,031</u>

ANALYSIS OF EXPENDITURES

Supplies and Materials		\$ 1,121
Communications		1,097
Travel		3,778
Contract Services:		
State Steward Compensation	\$ 5,875	
Assistant State Steward Compensation	1,180	
Pari-mutuel Supervisor Compensation	2,650	
Secretarial Services	2,169	
National Association Dues	600	
Preparation of Revised Pari-mutuel		
Procedures	595	
Equipment Rental	541	
Other	<u>1,632</u>	15,242
Equipment		241
Other Expenses		<u>303</u>
Total Expenditures		<u>\$21,782</u>

